

## Omstone Asia Capital (Nepal) Private Limited: Ratings reaffirmed

October 16, 2023

### Summary of rating action

Instrument (NPR in million)	Previous Rated Amount	Current Rated Amount	Rating Action
Long-term loan limits	1,030.0	1,569.2	[ICRANP] LB+; reaffirmed
Short term loan limits	10.0	10.0	[ICRANP] A4; reaffirmed
<b>Total</b>	<b>1,040.0</b>	<b>1,579.2</b>	

### Rating action

ICRA Nepal has reaffirmed the long-term rating of [ICRANP] LB+ (pronounced ICRA NP L B plus) assigned to the enhanced long-term loans of Omstone Asia Capital (Nepal) Private Limited (OACPL or the company). ICRA Nepal also reaffirmed the short-term rating of [ICRANP] A4 (pronounced ICRA NP A four) to the short-term loan limits of OACPL.

### Rationale

The rating reaffirmation factors in commencement of commercial operations of the hotel owned by OACPL. The hotel came into commercial operation in July 2023 with 28 keys while the remaining 26 keys and 18 leased villas are expected to be commissioned by H1FY2024 end. The ratings draw comfort from the availability of undrawn bank limits towards project capex which coupled with the equity infusion plans of the promoters is likely to support the near-term liquidity and debt servicing. The rating continues to positively note on the strategic location of the project and brand visibility accorded by the project's tie-up with Dusit Thani<sup>1</sup>. The hotel developers have entered into a licensing and management agreement with the multinational chain, allowing OACPL to use the brand name (Dusit Thani) and get access to Dusit's global reservation systems and to draw from the group's expertise in the management of hotel operations. This is also expected to offset the promoters' limited experience in operating such a high-end hotel. The rating also favorably factors in the Government of Nepal's (GoN) initiatives to boost the tourism industry to increase demand for such (hospitality) projects.

Nonetheless, the ratings are constrained by the significant cost escalation witnessed by the project and consequent rise in project debt financing. The project capex has increased by ~31% since the last rating exercise (and ~78% vis-à-vis original estimate). The high per key costs (NPR 42 million) and the high debt equity mix (DE ratio of 69:31) of the project are likely to burden the early operational cashflows of OACPL. Interest payment on the project loan is scheduled to commence from ~mid-October 2023 and principal repayment is expected to commence from early FY2025 (after the end of moratorium). Although the high price point of the hotel room is expected to benefit the margins, the total operational income in the early months and years is likely to remain moderate vis-à-vis the debt obligations, which is likely to necessitate funding support. Limited segment and geographical diversification of OACPL and competition from other established properties in and around Kathmandu region continues to remain among the rating challenge.

Going forward, the ability of the hotel to generate adequate occupancy at the targeted ARR's will remain key rating sensitivities. As the rating reaffirmation draws from the proposed equity infusion plans from promoters, timely infusion of such equity will remain a rating sensitivity.

<sup>1</sup> A Thailand based hospitality group with hotel properties across the southeast Asian region.

## Key rating drivers

### Credit strengths

**Brand recognition of Dusit Thani** – OACPL has entered into a 10-year hotel licensing and management agreement<sup>2</sup> with Dusit Overseas Company Limited for the use of the brand name ‘Dusit Thani Himalayan Resort’. This provides the new hotel with brand recognition and access to Dusit’s global reservation systems, which is likely to have a positive impact on its occupancy and revenues. Moreover, the agreement also provides for the management of the new property by Dusit’s team, mitigating the risk arising from limited hotel experience of the promoter.

**Governments support for tourism sector** – The Government of Nepal (GoN) has been taking multiple positive steps to develop the tourism sector, which remains its key priority. These include prescribing a lending floor for banks and financial institutions (BFIs) for tourism-related projects, interest capitalisation option during construction, recent announcement of Visit Nepal decade, extended support to recover from the pandemic impact etc. among others. The long-term outlook also remains positive for the sector considering the presence of two large populous nations as neighbours.

### Credit challenges

**Sizeable debt burden likely to subdue debt servicing ability and liquidity** – Debt burden on the company is on a higher side given the 69:31 debt-equity mix on the revised project cost (cost per key of ~NPR 42 million). Given the small scale of the hotel (based on 54 keys and 18 leased villas) and moderate ARR/occupancies expected in the early stages, the operational cashflows are likely to be stretched vis-à-vis the soon commencing interest payments from Q1FY2024 and principal repayment from Q1FY2025. To some extent, the undrawn limits from bank and equity infusion plans of the promoters is likely to cushion the liquidity/debt servicing ability of the company in the near term. Until the optimum revenue level is achieved and/or debt burden is meaningfully reduced, the company’s liquidity and debt servicing capacity are likely to remain moderate to weak.

**Limited geographical and segmental diversification** – The 5-star resort hotel is a single-property hotel located in the outskirts of the capital city-Kathmandu targeting high-end leisure travellers, and thus is exposed to the geographical concentration risk. Moreover, given the limited segment diversification, the revenue of the hotel is likely to be driven by a niche customer segment of high-end tourists. Given the relatively moderate per capita spending by the tourist visiting the country, generating adequate traffic to the proposed high-end property could remain a challenge.

**Increasing industry competition and margin pressure** – Over the last few years, Kathmandu Valley and nearby areas have witnessed an increased supply of new hotel properties. Due to the slow growth in demand vis-à-vis supply, industry competition has intensified resulting in the moderation of ARRs/Occupancies vis-à-vis original estimates. Given the high operating leverage of the hospitality business, any moderation in ARRs/occupancies could weaken the operational profitability of new hotel businesses like OACPL.

**Analytical approach:** For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below:

#### Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

---

<sup>2</sup> The agreement has been entered for an initial period of 10 years, extendable by further 5+5 years at the discretion of the parties involved .i.e., Dusit Overseas Company Limited and Omstone Asia Capital (Nepal) Private Limited.

**Link to the previous rationale:**

[Omstone Asia Capital \(Nepal\) Private Limited-BLR Surveillance Rationale October 2022](#)

## **About the company**

Omstone Asia Capital (Nepal) Private Limited (OACPL) was incorporated in December 2014. OACPL is a special purpose vehicle (SPV) set up for developing and operating a 5-star resort property in Dhulikhel (vicinity of Kathmandu city), under the franchise of the Dusit Thani group of hotels (a Thailand-based hospitality Group), viz. 'Dusit Thani Himalayan Resort'. OACPL has shareholding from Mr. Vishnu Mor (an Indian national and Dubai-based businessman with major investments in edible oil industry) and Mr. Ramesh Hamal (a Nepalese businessman with prior hospitality sector experience across South-east Asia and the Caribbean).

OACPL has entered a management contract with Dusit Thani for a period of 10 years (extendable by another 10 years) from the date of commencement. The resort property has commenced its first phase of commercial operation (with 28 keys) from July 2023 while the full-fledged operation (with 54 keys and 18 villas) is expected by February 2024.

### **Analyst Contacts:**

**Mr. Sailesh Subedi**, (Tel No. +977-1-4419910/20)  
[sailesh@icranepal.com](mailto:sailesh@icranepal.com)

**Ms. Neha Baral**, (Tel No. +977-1-4419910/20)  
[neha@icranepal.com](mailto:neha@icranepal.com)

**Ms. Upahar Sharma**, (Tel No. +977-1-4419910/20)  
[upahar.sharma@icranepal.com](mailto:upahar.sharma@icranepal.com)

### **Relationship Contacts:**

**Ms. Barsha Shrestha**, (Tel No. +977-1-4419910/20)  
[barsha@icranepal.com](mailto:barsha@icranepal.com)

## **About ICRA Nepal Limited:**

ICRA Nepal Limited, the first Credit Rating Agency of Nepal, is a subsidiary of ICRA Limited (ICRA) of India. It was incorporated on November 11, 2011, and granted license by the Securities Board of Nepal (SEBON) on October 3, 2012. ICRA Nepal is supported by ICRA Limited through a Technical Support Services Agreement, which envisages ICRA helping ICRA Nepal in such areas as rating process and methodologies, analytical software, research, training, and technical and analytical skill augmentation.

Our parent company, ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency. Today, ICRA and its subsidiaries together form the ICRA Group of Companies.

For more information, visit [www.icranepal.com](http://www.icranepal.com)

### **ICRA Nepal Limited,**

Sunrise Bizz Park, 6th Floor, Dillibazar, Kathmandu, Nepal.

**Phone:** +977 1 4419910/20

**Email:** [info@icranepal.com](mailto:info@icranepal.com)

**Web:** [www.icranepal.com](http://www.icranepal.com)

All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA Nepal.

ICRA Nepal ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. The ICRA Nepal ratings are subject to a process of surveillance which may lead to a revision in ratings. Please visit our website ([www.icranepal.com](http://www.icranepal.com)) or contact ICRA Nepal office for the latest information on ICRA Nepal ratings outstanding. All information contained herein has been obtained by ICRA Nepal from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA Nepal in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. All information contained herein must be construed solely as statements of opinion and ICRA Nepal shall not be liable for any losses incurred by users from any use of this publication or its contents